FISCAL NOTE

Bill #:	HB0057	**Title:**	Transfer $1.6 million from sec. 8 to affordable housing revolving account
Housing			
Primary Sponsor:	Ron Erickson	**Status:**	As Introduced

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Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
State Special Revenue	0	28,607
Federal Special Revenue – Operating Expenses	32,107	0
Federal Special Revenue - Transfer	1,567,893	0
Revenue:		
Federal Special Revenue	(120,000)	(120,000)
Net Impact on General Fund Balance:	**$0**	**$0**

Yes	No		Yes	No	
X		Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. The Section 8 reserve currently is pledged to participating landlords to cover HAP (rent) payments when HUD is late in reimbursing the Department of Commerce for 8,000 rental units, including HUD year end settlements. To this point, the reserve has covered all shortages. If reserve funds are not available, the Department of Commerce would be forced to make late payments, in violation of HAP

contracts and with increased late penalties and fees, or ask for general fund loans to cover up to $4,000,000 in monthly payments.

2. The Section 8 reserve also would lose interest earnings on $1,600,000, or $80,000 per year, plus an additional $40,000 per year in lost interest as more of the reserve will be required to remain in cash instead of being invested.
3. The Section 8 reserve already is being drawn upon for the administration of Section 8, and there are anticipated cost increases for new federal initiatives, such as lead based paint, increased agent workload, and on line computerization of local agent activities. A substantial rent increase will also be incurred when the department moves to the federal building in FY 2002. The current draw down rate is between $300,000 and $500,000 per year. With the loss of revenue, the draw down will become larger, shortening the life of reserve, which would require general fund loans to subsidize a federal program within five years.
4. HUD, may, at any time officials believe that the Section 8 Program is troubled, stop all payment of Section 8 reserve funds from any other housing purpose, requiring reimbursement of any remaining funds for use in Section 8 program administration.
5. Section 8 reserve currently funds the costs of preparation of the State Consolidated Plan (necessary for access to HUD funding for CDBG, HOME, and ESG funds) for between $40,000 and $80,000 per year. This will stop if the funds are removed from the reserve, and the costs will have to be assumed by CDBG, HOME, and ESG.
6. The Section 8 reserve currently funds part of the state administration of the HUD HOME Program. HUD limits administration on HOME to 10 percent of the total grant. HOME currently uses 2 percent for state administration (Section 8 funds the remainder), and passes 8 percent through to localities for use in local project administration. If the $1.6 million is removed from Section 8, HOME will have to adjust local administration of HOME projects down from 8 percent to the range of 4 percent to 5 percent, using the generated funds for state administration of HOME. This amounts to $80,000 to $140,000 per year for HOME, which would no longer be available to local government projects.
7. Costs to administer the housing trust fund would be paid from moneys within said fund. Administration of this new program will require 0.50 FTE and associated operating costs. Personal services costs for a 0.50 FTE (grade 15) are estimated to be $18,607, a new employee office package in FY 2002 would be $3,500, and other operating expenses which include travel, printing, supplies, and communications are estimated to be $10,000 each year.
8. All trust fund uses, other than administrative, are assumed to be loans, which are not expensed on the state accounting system, but classified as assets (loans receivable). Write-offs of delinquent loans are assumed to be a non-budgeted expense. It is also assumed that a sufficient amount of interest would be charged on the loans to at least recoup administrative costs.
9. No assumptions are made as to loan repayment rates or terms because those would be negotiated when specific requests are made.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
FTE	0.50	0.50
Expenditures:		
Personal Services	18,607	18,607
Operating Expenses	13,500	10,000
Transfers – Fed Spec Rev	1,567,893	0
TOTAL	$1,600,000	$28,607
Funding:		
State Special Revenue (02)	0	28,607
Federal Special Revenue (03)	1,600,000	0
TOTAL	$1,600,000	$28,607
Revenues:		
Federal Special Revenue (03)	(120,000)	(120,000)
Net Impact to Fund Balance (Revenue minus Expenditure):		
State Special Revenue (02)	0	($28,607)
Federal Special Revenue (03)	($1,720,000)	($120,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
Local governments will receive less in administrative funding from the HUD HOME Program, where the program will be required to use more of the 10 percent admin cap for state administration with the removal of funds from the Section 8 reserve. Local governments will be limited to 4 percent to 5 percent of their grant amounts, instead of 8 percent as is now allowed on these construction and homebuyer projects. It will still cost as much to administer these programs at the local level, so any difference will be paid by the local government if they wish to participate in the HOME Program.

LONG-RANGE IMPACTS:
1. The influx of $1,600,000 into the housing trust fund will allow limited gap financing to projects already participating in the MBOH Multi Family and Tax Credit Programs, the CDBG Program, HOME, and other local development programs.
2. The Section 8 reserve will cease to exist within five years of the start of the program. This will mean severely curtailing operations of the Section 8 Program, decreasing administrative amounts available for other programs, possibly committing future legislatures to requiring general fund loans for administration of this 100 percent federally funded program.